

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Hagar Township</u>	County Berrien
Audit Date March 31, 2005	Opinion Date June 24, 2005	Date Accountant Report Submitted To State: September 23, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 511 Renaissance Drive Suite 120	City St. Joseph	State MI	ZIP 49085
Accountant Signature  <i>Plante &amp; Moran, PLLC</i>			

# Hagar Township, Michigan

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Financial Report  
with Supplemental Information  
March 31, 2005

# Hagar Township

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## Independent Auditor's Report

To the Members of the Township Board  
Hagar Township, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the discretely presented component unit of Hagar Township, Michigan as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hagar Township, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and the discretely presented component unit of Hagar Township, Michigan at March 31, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedule, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of April 1, 2004.

*Plante & Moran, PLLC*

June 24, 2005

# Hagar Township

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## Management's Discussion and Analysis

Our discussion and analysis of Hagar Township, Michigan's (the "Township") financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2005. Please read it in conjunction with the Township's financial statements.

### **Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2005:

- State-shared revenue was reduced by the State of Michigan by approximately \$8,200 this year.
- Total net assets related to the Township's governmental activities decreased by approximately \$170,000, due to the defeat of fire and ambulance property tax renewals.
- The Township joined with the City of Coloma and Coloma Charter Township to provide fire department services.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

# Hagar Township

## Management's Discussion and Analysis (Continued)

### The Township as a Whole

The following table shows, in a condensed format, the net assets as of March 31, 2005. In future years, when prior year information is available, comparative data will be presented.

TABLE 1

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Current assets	\$ 2,003,933	\$ 54,970	\$ 2,058,903
Noncurrent assets	<u>845,696</u>	<u>35,181</u>	<u>880,877</u>
Total assets	2,849,629	90,151	2,939,780
<b>Liabilities</b> - Current liabilities	<u>30,793</u>	<u>-</u>	<u>30,793</u>
<b>Net Assets</b>			
Invested in capital assets	566,396	35,181	601,577
Restricted	266,343	-	266,343
Unrestricted	<u>1,986,097</u>	<u>54,970</u>	<u>2,041,067</u>
Total net assets	<u><b>\$ 2,818,836</b></u>	<u><b>\$ 90,151</b></u>	<u><b>\$ 2,908,987</b></u>

The Township's governmental activities net assets decreased almost 6 percent from a year ago - decreasing from approximately \$2,989,000 to \$2,819,000.

Unrestricted net assets is the part of net assets that can be used to finance day-to-day operations. The current level of unrestricted net assets for our governmental activities stands at \$1,986,000, or about 300 percent of expenditures.

# Hagar Township

## Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year. In future years, when prior year information is available, comparative data will be presented.

TABLE 2

	Governmental Activities	Business-type Activities	Total
<b>Revenue</b>			
Program revenue - Charges for services	\$ 79,871	\$ 4,762	\$ 84,633
General revenue:			
Property taxes	99,042	-	99,042
State-shared revenue	263,011	-	263,011
Unrestricted investment earnings	5,700	633	6,333
Local sources	5,000	-	5,000
Miscellaneous	16,760	-	16,760
Total revenue	469,384	5,395	474,779
<b>Program Expenses</b>			
General government	318,974	-	318,974
Public safety	211,830	-	211,830
Public works	10,216	-	10,216
Highways and streets	69,395	-	69,395
Recreation and health	29,124	-	29,124
Water	-	2,177	2,177
Total program expenses	639,539	2,177	641,716
<b>Change in Net Assets</b>	<b>\$ (170,155)</b>	<b>\$ 3,218</b>	<b>\$ (166,937)</b>

### Governmental Activities

The Township's total governmental revenue decreased by approximately \$251,000, primarily due to a decrease in state-shared revenue and the loss of property tax revenue. Total governmental revenue decreased approximately 35 percent compared to revenues reported in 2004. Other revenue decreased substantially in 2005 compared to 2004 due to a land contribution of approximately \$150,000 in 2004.

Expenses included in the governmental activities appear very consistent with prior year expenditures.

### Business-type Activities

The Township's business-type activity consists of the Water Fund. We provide water services to some residents through a contract with the City of Benton Harbor.

# Hagar Township

## Management's Discussion and Analysis (Continued)

### **The Township's Funds**

Our analysis of the Township's major funds begins on page 9, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township's major funds for 2005 include the General Fund and the Water Fund.

General Fund expenses increased by about \$47,000 during the year. Increases in expenditures in the current year compared to prior year resulted primarily from fire department litigation costs.

The General Fund pays for most of the Township's governmental services. The most significant are public safety expenditures, which incurred expenses of approximately \$184,000 in 2005. These services had been supported by a special ambulance millage and a fire millage, the renewal of which was defeated by Township residents. Therefore, 2005 expenditures were paid from savings accumulated in prior years.

### **General Fund Budgetary Highlights**

Over the course of the year, the Township amended the budget to take into account events during the year. The most significant change was to decrease property tax revenue when the millage renewal failed. Township public safety departments were over budget due to legal costs related to the fire department dissolution. Total expenditures were \$20,000 over budget. Total revenues were lower than anticipated by almost \$46,000. The General Fund's fund balance decreased from \$2,108,194 a year ago down to \$1,973,140 at March 31, 2005.

### **Capital Asset and Debt Administration**

During 2005, the Township invested approximately \$28,000 in a broad range of capital assets, with the majority of expenditures going toward equipment. Also during 2005, the Township transferred its fire station, vehicles, and equipment totaling approximately \$767,000 to the Coloma-Hagar Joint Fire Board.

### **Economic Factors and Next Year's Budgets and Rates**

Revenues are affected dramatically by the failure of the millage renewal for operating costs. The previous year's budget was not only affected by the reduction in operating millage but also a one-year gap in the fire department millage collection. As a result, since property taxes are collected in arrears, the Township is faced with a temporary shortfall in revenue for the coming year. The fire department millage has been renewed for the 2005 tax collection year and is projected to provide adequate funding for anticipated expenses for the coming year.

Revenue-sharing funds from the State have been reduced. Treasury department revenue-sharing projections are reflected in the budget for the 2005-2006 fiscal year.



# Hagar Township

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## Management's Discussion and Analysis (Continued)

Expenses related to legal ramifications from the fire department dissolution had the greatest impact on departures from last year's budget. These charges were related in large part to the defense and subsequent settlement with a firefighter and do not reflect a permanent trend in Township professional costs.

Expense projections have been allowed for the improvement of Zoschke Road near Pier Road and for contributing to the paving of Carter Road in conjunction with Coloma Township. Current budgeting allows for both of these projects to be financed in 2006 with a reasonable surplus for contingencies remaining.

Hagar Township has just finished its first year in many with a deficit. Many factors came together to contribute to the shortfall but 2006 is poised to return the Township to a normal financial balance allowing for positive cash flow and continued stability for the foreseeable future.

### **Contacting the Township's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

# Hagar Township

## Statement of Net Assets March 31, 2005

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
<b>Assets</b>				
Cash (Note 3)	\$ 746,765	\$ 6,269	\$ 753,034	\$ 600,091
Investments (Note 3)	1,248,956	48,410	1,297,366	-
Taxes receivable	7,791	712	8,503	4,530
Internal balances	421	(421)	-	-
Interest in joint venture	279,300	-	279,300	-
Capital assets - Net (Note 4)	566,396	35,181	601,577	-
Total assets	2,849,629	90,151	2,939,780	604,621
<b>Liabilities</b>				
Accounts payable	22,017	-	22,017	-
Accrued and other liabilities	8,776	-	8,776	-
Total liabilities	30,793	-	30,793	-
<b>Net Assets</b>				
Invested in capital assets	566,396	35,181	601,577	-
Restricted for fire operations	79,436	-	79,436	-
Restricted for ambulance operations	134,694	-	134,694	-
Restricted for Technisand contract	52,213	-	52,213	-
Restricted for drain project	-	-	-	28,900
Unrestricted	1,986,097	54,970	2,041,067	575,721
Total net assets	<u>\$ 2,818,836</u>	<u>\$ 90,151</u>	<u>\$ 2,908,987</u>	<u>\$ 604,621</u>

# Hagar Township

## Statement of Activities Year Ended March 31, 2005

Functions/Programs	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Expenses	Charges for Services	Primary Government			Downtown Development Authority
			Governmental Activities	Business-type Activities	Total	
Primary government:						
Governmental activities:						
General government	\$ 318,974	\$ 75,497	\$ (243,477)	\$ -	\$ (243,477)	\$ -
Public safety	211,830	4,374	(207,456)	-	(207,456)	-
Public works	10,216	-	(10,216)	-	(10,216)	-
Highways and streets	69,395	-	(69,395)	-	(69,395)	-
Recreation and health	29,124	-	(29,124)	-	(29,124)	-
Total governmental activities	639,539	79,871	(559,668)	-	(559,668)	-
Business-type activities - Water	2,177	4,762	-	2,585	2,585	-
Total primary government	<u>\$ 641,716</u>	<u>\$ 84,633</u>	(559,668)	2,585	(557,083)	-
General revenues:						
Property taxes			99,042	-	99,042	50,977
State-shared revenues			263,011	-	263,011	-
Local sources			5,000	-	5,000	-
Unrestricted investment earnings			5,700	633	6,333	5,594
Miscellaneous			16,760	-	16,760	-
Total general revenues			389,513	633	390,146	56,571
Change in Net Assets			(170,155)	3,218	(166,937)	56,571
Net Assets - Beginning of year			2,988,991	86,933	3,075,924	548,050
Net Assets - End of year			\$ 2,818,836	\$ 90,151	\$ 2,908,987	\$ 604,621

# Hagar Township

## Governmental Funds Balance Sheet March 31, 2005

	<u>General Fund</u>
<b>Assets</b>	
Cash	\$ 746,765
Investments	1,248,956
Taxes receivable	7,791
Due from other funds	<u>421</u>
Total assets	<b><u>\$ 2,003,933</u></b>
<b>Liabilities and Fund Balances</b>	
<b>Liabilities</b>	
Accounts payable	\$ 22,017
Accrued liabilities	<u>8,776</u>
Total liabilities	30,793
<b>Fund Balances</b>	
Reserved for fire operations	79,436
Reserved for ambulance operations	134,694
Reserved for Technisand contract	52,213
Unreserved:	
Designated for future sewer system	225,210
Designated for fire departmental capital expenditures	174,076
Designated for road improvements	191,593
Designated for township capital improvements	269,329
Undesignated	<u>846,589</u>
Total fund balances	<u>1,973,140</u>
Total liabilities and fund balances	<b><u>\$ 2,003,933</u></b>
<b>Fund Balance - Total Governmental Funds</b>	<b>\$ 1,973,140</b>
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	566,396
Interest in joint venture is not a financial resource and is not reported in the funds	<u>279,300</u>
Net assets of governmental activities	<b><u>\$ 2,818,836</u></b>

# Hagar Township

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balance Year Ended March 31, 2005

	<u>General Fund</u>
<b>Revenue</b>	
Property taxes	\$ 99,042
Licenses and permits	74,207
State-shared revenues	263,011
Local sources	5,000
Charges for services	5,664
Sale of Township assets, interest, and rent	5,700
Other	<u>16,760</u>
Total revenue	469,384
<b>Expenditures - Current</b>	
General government	320,685
Public safety	183,651
Public works	10,216
Highways and streets	69,395
Recreation and health	20,466
Other	<u>25</u>
Total expenditures	<u>604,438</u>
<b>Excess of Expenditures Over Revenue</b>	(135,054)
<b>Fund Balance - Beginning of year</b>	<u>2,108,194</u>
<b>Fund Balance - End of year</b>	<u><b>\$ 1,973,140</b></u>

# Hagar Township

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## Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities Year Ended March 31, 2005

**Net Change in Fund Balance - Total Governmental Funds** \$ (135,054)

Amounts reported for governmental activities in the statement of activities are different because:

Interest in joint venture not recorded in governmental funds:

Increase in equity interest	279,300
Loss on transfer of capital assets to joint venture	(321,302)

Governmental funds report capital outlays as expenditures;  
in the statement of activities, these costs are allocated  
over their estimated useful lives as depreciation:

Additions	27,800
Depreciation	<u>(20,899)</u>

**Change in Net Assets of Governmental Activities** \$ (170,155)

# Hagar Township

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## Proprietary Funds Statement of Net Assets March 31, 2005

	<u>Enterprise - Water Fund</u>
<b>Assets</b>	
Current assets:	
Cash	\$    6,269
Investments	48,410
Receivables - Net	<u>712</u>
 Total current assets	 55,391
 Noncurrent assets - Capital assets	 <u>35,181</u>
 Total assets	 90,572
 <b>Liabilities</b> - Current liabilities - Due to other funds	 <u>421</u>
 <b>Net Assets</b>	
Invested in capital assets	35,181
Unrestricted	<u>54,970</u>
 Total net assets	 <u><u>\$    90,151</u></u>

# Hagar Township

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## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended March 31, 2005

	Enterprise - Water Fund
<b>Operating Revenue</b> - Charges for services	\$ 4,762
<b>Operating Expenses</b>	
Operation and maintenance	1,092
Depreciation	<u>1,085</u>
Total operating expenses	<u>2,177</u>
<b>Operating Income</b>	2,585
<b>Nonoperating Revenue</b> - Investment income	<u>633</u>
<b>Net Income</b>	3,218
<b>Net Assets</b> - Beginning of year	<u>86,933</u>
<b>Net Assets</b> - End of year	<u><u>\$ 90,151</u></u>



# Hagar Township

## Proprietary Funds Statement of Cash Flows Year Ended March 31, 2005

	<u>Enterprise - Water Fund</u>
<b>Cash Flows from Operating Activities</b>	
Receipts from customers	\$ 4,762
Payments to suppliers	<u>(1,092)</u>
Net cash provided by operating activities	3,670
<b>Cash Flows from Investing Activities</b>	
Investment purchases	(30)
Interest received on investments	<u>633</u>
Net cash provided by investing activities	<u>603</u>
<b>Net Increase in Cash</b>	4,273
<b>Cash - Beginning of year</b>	<u>1,996</u>
<b>Cash - End of year</b>	<u><u>\$ 6,269</u></u>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>	
Operating income	\$ 2,585
Adjustment to reconcile operating income to net cash from operating activities - Depreciation	<u>1,085</u>
Net cash provided by operating activities	<u><u>\$ 3,670</u></u>

During the year ended March 31, 2005, there were no noncash transactions.

# Hagar Township

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## Fiduciary Funds Statement of Fiduciary Assets and Liabilities March 31, 2005

	<u>Agency Fund</u>
<b>Assets - Cash</b>	<b><u>\$ 8,477</u></b>
<b>Liabilities - Due to other governmental units</b>	<b><u>\$ 8,477</u></b>

## Note 1 - Summary of Significant Accounting Policies

The accounting policies of Hagar Township, Michigan (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

### **Reporting Entity**

The Township is governed by an elected five-member board. The accompanying financial statements present the Township and its component unit, an entity for which the Township is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Township (see discussion below for description).

The Downtown Development Authority was created to stabilize conditions for those residing in the Riverside area, assist businesses in locating or expanding in the area, and to improve the quality of life. The Authority's governing body, which consists of nine individuals, is appointed by the Township Board. Any surplus funds existing at the Authority's termination vest to the Township.

**Jointly Governed Organizations** - The Township, along with Coloma Charter Township and the City of Coloma, is a member of the Coloma - Hagar Joint Fire Board. The fire board is governed by an administrative board of six members, appointed by the City and Townships. The Township's equity interest in the fire board of \$279,300 is recorded in governmental activities in the government-wide financial statements. Complete financial statements for the fire board can be obtained from the City of Coloma mayor's office.

### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

## Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue and interest associated with the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

## Note 1 - Summary of Significant Accounting Policies (Continued)

The Township reports the following major governmental funds:

**General Fund** - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Water Fund** - The Water Fund accounts for the activities of the water system.

Additionally, the Township reports the following fund types:

### **Fiduciary Funds**

**Agency Fund** - The Agency Fund accounts for assets held by the Township in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement on results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

### **Property Tax Revenue**

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Township's 2004 tax is levied and collectible on December 1, 2004 and is recognized as revenue in the year ended March 31, 2005, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2004 taxable valuation of the Township totaled \$119.8 million, on which taxes levied consisted of .6927 mills for operating purposes. This resulted in approximately \$86,000 for operations.

### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

## Note 1 - Summary of Significant Accounting Policies (Continued)

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

**Capital Assets** - Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Land improvements	15 years
Buildings	40 years
Office equipment	7 years
Equipment	5 years
Transportation equipment	5 years
Water lines	50 years

**Fund Equity** - In the fund financial statements, the governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Accounting Change** - Effective April 1, 2004, the Township implemented the general provisions of GASB Statement 34, *Basic Financial Statements and Management's Discussion and Analysis - for Local Governments*. Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the Township's activities
- Capital assets in the governmental activities column of the statement of net assets includes assets totaling approximately \$921,000 that would previously have been reported in the General Fixed Assets Account Group.
- Capital assets at March 31, 2004 previously reported in the General Fixed Assets Account Group have been adjusted by approximately \$899,000 to reflect the historical cost of the Township's capital assets at that date.

### Note 2 - Stewardship, Compliance, and Accountability

**Construction Code Fees** - The Township oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Shortfall at March 31, 2004	\$ (51,076)
Current year building permit revenue	43,417
Related expenses - Direct costs	<u>(41,560)</u>
Shortfall at March 31, 2005	<u>\$ (49,219)</u>

The Township has not adopted a credit card policy as required by state law.

### Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Township has designated five banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investments in U.S. government obligations, bank accounts, and CDs.

Hagar Township, Michigan's deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government	Component Unit
Cash	\$ 746,765	\$ 6,269	\$ 8,477	\$ 761,511	\$ 600,091
Investments	<u>1,248,956</u>	<u>48,410</u>	<u>-</u>	<u>1,297,366</u>	<u>-</u>
Total	<u>\$ 1,995,721</u>	<u>\$ 54,679</u>	<u>\$ 8,477</u>	<u>\$ 2,058,877</u>	<u>\$ 600,091</u>

The above amounts are classified by Governmental Accounting Standards Board Statement Number 3 in the following categories:

Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 761,367
Investments in securities, mutual funds, and similar vehicles	1,297,366
Petty cash and cash on hand	<u>144</u>
Total	<u>\$ 2,058,877</u>



## Note 3 - Deposits and Investments (Continued)

### Deposits

The bank balance of the Township's deposits is \$757,921, of which \$315,394 is covered by federal depository insurance. The remainder was uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The bank balance of the component unit's deposits is \$600,693, of which \$356,126 is covered by federal depository insurance.

### Investments

Investments are categorized into these three categories of credit risk:

Category 1 - Insured or registered, with securities held by the Township or its agent in the Township's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Township's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Township's name

At year end, the Township's investment balances were categorized as follows:

	Category			Reported Amount (Fair Value)
	1	2	3	
Primary government - U.S government securities	\$ -	\$ -	\$ 1,297,366	\$ 1,297,366

# Hagar Township

## Notes to Financial Statements March 31, 2005

### Note 4 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

	Balance March 31, 2004	Additions	Disposals	Balance March 31, 2005
<b>Governmental Activities</b>				
Capital assets not being depreciated -				
Land	\$ 255,773	\$ -	\$ -	\$ 255,773
Capital assets being depreciated:				
Land improvements	129,863	-	-	129,863
Buildings	495,406	10,296	94,000	411,702
Office equipment	8,244	6,065	-	14,309
Equipment	219,943	11,439	121,566	109,816
Transportation equipment	551,071	-	551,071	-
Subtotal	1,404,527	27,800	766,637	665,690
Accumulated depreciation:				
Land improvements	19,652	8,658	-	28,310
Buildings	257,690	9,100	50,760	216,030
Office equipment	5,015	1,925	-	6,940
Equipment	177,571	1,216	75,000	103,787
Transportation equipment	319,575	-	319,575	-
Subtotal	779,503	20,899	445,335	355,067
Net capital assets being depreciated	625,024	6,901	321,302	310,623
Net capital assets	\$ 880,797	\$ 6,901	\$ 321,302	\$ 566,396

The above disposals represent capital assets transferred to the Coloma - Hagar Joint fire board.

	Balance March 31, 2004	Additions	Disposals	Balance March 31, 2005
<b>Business-type Activities</b>				
Capital assets being depreciated:				
Water lines	\$ 54,222	\$ -	\$ -	54,222
Office equipment	10,801	-	-	10,801
Subtotal	65,023	-	-	65,023
Accumulated depreciation	28,757	1,085	-	29,842
Net capital assets being depreciated	\$ 36,266	\$ (1,085)	\$ -	\$ 35,181

# Hagar Township

## Notes to Financial Statements March 31, 2005

### Note 4 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 12,241
Recreation and health	<u>8,658</u>

Total governmental activities	<u>\$ 20,899</u>
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Business-type activities - Water	<u>\$ 1,085</u>
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### Note 5 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts, errors and omissions, and employee injuries. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

### Note 6 - Defined Contribution Retirement Plan

The Township provides pension benefits to all of its board members and hourly employees at least 18 years of age with 1,000 hours of service or more. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by the Township board, the Township contributes 10 percent of employees' gross earnings. In accordance with these requirements, the Township contributed \$6,752. There were no employee contributions during fiscal 2005.

## Required Supplemental Information

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# Hagar Township

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 315,000	\$ 115,628	\$ 99,042	\$ (16,586)
Licenses and permits	38,500	50,252	74,207	23,955
State sources	250,000	263,011	263,011	-
Local sources	5,000	5,000	5,000	-
Charges for services	13,000	4,820	5,664	844
Interest income	35,000	38,866	5,700	(33,166)
Other revenue	29,000	37,424	16,760	(20,664)
Total revenue	685,500	515,001	469,384	(45,617)
<b>Expenditures</b>				
General government:				
Supervisor	12,775	12,775	11,938	837
Township board	7,600	7,216	7,216	-
Elections	8,000	6,376	6,376	-
Treasurer	11,200	11,200	11,200	-
Assessor	50,000	46,245	46,635	(390)
Clerk	12,000	12,000	12,000	-
Board of Review	1,100	1,086	1,087	(1)
Township Hall	48,000	43,674	43,285	389
Cemetery	16,000	17,126	17,126	-
General administration	196,225	156,982	163,823	(6,841)
Total general government	362,900	314,680	320,686	(6,006)
Public safety:				
Fire	88,000	86,566	92,546	(5,980)
Ambulance	55,000	36,997	36,799	198
Building and mechanical inspector	74,800	42,838	41,560	1,278
Liquor inspector	1,300	1,279	1,279	-
Planning and zone board	4,000	6,578	11,491	(4,913)
Total public safety	223,100	174,258	183,675	(9,417)
Public works:				
Street lights	7,000	4,611	4,910	(299)
Drains	10,000	892	892	-
Spring/Fall cleanup	4,500	4,414	4,414	-
Total public works	21,500	9,917	10,216	(299)

# Hagar Township

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended March 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Expenditures</b> (Continued)				
Highways and streets	\$ 55,000	\$ 64,849	\$ 69,395	\$ (4,546)
Recreation and health	<u>23,000</u>	<u>20,473</u>	<u>20,466</u>	<u>7</u>
Total expenditures	<u>685,500</u>	<u>584,177</u>	<u>604,438</u>	<u>(20,261)</u>
<b>Excess of Expenditures Over Revenue</b>	-	(69,176)	(135,054)	(65,878)
<b>Fund Balance</b> - Beginning of year	<u>2,108,194</u>	<u>2,108,194</u>	<u>2,108,194</u>	<u>-</u>
<b>Fund Balance</b> - End of year	<u><b>\$ 2,108,194</b></u>	<u><b>\$ 2,039,018</b></u>	<u><b>\$ 1,973,140</b></u>	<u><b>\$ (65,878)</b></u>

# Hagar Township

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## Note to Required Supplemental Information March 31, 2005

### Note - Budgetary Information

**Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund. All annual appropriations lapse at fiscal year end. The Township supervisor prepares the budget 30 to 60 days prior to year end after consulting with department heads. The budget is submitted to the board for approval in late March.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

Encumbrance accounting is not employed in governmental funds. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the Township incurred expenditures that were in excess of the amounts budgeted as follows:

	<u>Budget</u>	<u>Actual</u>
General Fund:		
General administration	\$ 156,982	\$ 163,823
Fire	86,566	92,546
Planing and zoning board	6,578	11,491
Highways and streets	64,849	69,395



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Members of the Board  
Hagar Township, Michigan

We have recently completed our examination of the Township's financial statements and underlying records for the year ended March 31, 2005. In addition to our report on the financial statements, we would like to present the matters outlined below as potential opportunities for improvements to the internal controls and efficiency of your Organization. These recommendations and informational comments are presented as outlined below:

### ***Credit Card Policy***

During our audit, we noted that the Township uses a credit card to make certain purchases, mainly office supplies, but as of our testing date there was not a policy in place governing its use. To strengthen the internal controls around credit card purchases, recommend a formal policy be developed regarding credit card usage. The policy would help define who can use the credit card and the approval process needed to generate transactions.

The State of Michigan now requires local units of government to adopt a credit card policy. Attached are the minimum policy requirements issued by the State.

### ***Capitalization Policy***

During our audit, we noted that there is not a formal capitalization policy in place at the Township. With the implementation of GASB 34, it is important to develop a capitalization policy, so there is some consistency in what is capitalized and what is expensed. As the Township purchases items, a decision should be made as to whether the item should be capitalized or not and this should be done in accordance with a formal policy. A sample policy is attached.

### ***Investment Reporting***

During our audit, we noted the Board does not review any information regarding the investment activity of the Township, except at the year-end audit review. It is very important that the Board review this information on a regular basis to ensure the proper checks and balances are in place at the Township. We recommend the Board receive a report on the investment activity at least twice a year from management.

We would like to thank the Township for the opportunity to be of service. We especially would like to thank the Township's staff for all their help and efforts throughout the year-end audit. We would be happy to assist the Township in the matters discussed above or in any way the Township would benefit from our resources.

*Plante & Moran, PLLC*

June 23, 2005